

AR37

Prairie Oil Royalties

COMPANY, LTD.

File



ANNUAL REPORT

1979

Directors

- *Donald D. Barkwell Calgary, Alberta
*Senior Vice-President, Natural Resources
Norcen Energy Resources Limited*
- *Edward A. Galvin Calgary, Alberta
*President
Poco Petroleum Ltd.*
- Wilfrid A. Loucks Calgary, Alberta
*Vice-President, Minerals
Norcen Energy Resources Limited*
- *Frederick A. McKinnon Calgary, Alberta
Director of various companies
- Clifford A. Rae Calgary, Alberta
*Barrister & Solicitor
Macleod Dixon,
Barristers & Solicitors*
- David M. Tyerman, Q.C. Regina, Saskatchewan
*Barrister & Solicitor
MacPherson, Leslie & Tyerman
Barristers & Solicitors*

*Member of the Audit Committee

DESCRIPTION OF BUSINESS

Prairie Oil Royalties Company, Ltd. was incorporated July 13, 1951 under the laws of the Province of Saskatchewan, Canada. The Company produces and sells crude oil, gas liquids and natural gas in Western Canada and is engaged in oil and gas exploration and development in Western Canada and the Canadian Arctic.

ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held on Wednesday, April 30, 1980 at 10:30 o'clock in the forenoon, local time, in the Board Room of Norcen Energy Resources Limited, 32nd Floor, 715 - 5th Avenue S.W., Calgary, Alberta, Canada T2P 2X7. Shareholders are encouraged to attend the meeting but those unable to do so are asked to sign and return the form of proxy mailed with this report.

Officers

- Donald D. Barkwell *President*
*Senior Vice-President, Natural Resources
Norcen Energy Resources Limited*
- Richard S. Buckland *Vice-President, Exploration
General Manager, Canadian Exploration
Norcen Energy Resources Limited*
- William C. Hennenfent *Vice-President, Production
Vice-President, Production
Norcen Energy Resources Limited*
- David M. Tyerman, Q.C. *Secretary*
*Barrister & Solicitor
MacPherson, Leslie & Tyerman
Barristers & Solicitors*
- A. Kenneth Davies *Treasurer*
*Assistant Treasurer
Norcen Energy Resources Limited*
- William T. Kilbourne *Assistant Secretary*
*Vice-President, Administration and Secretary
Norcen Energy Resources Limited*
- Russell G. Rennie *Assistant Secretary*
*Assistant Secretary
Norcen Energy Resources Limited*

Executive Office

715 - 5th Avenue S.W., Calgary, Alberta T2P 2X7

Registered Office

2161 Scarth Street, Regina, Saskatchewan S4P 2V4

Auditors

Thorne Riddell , Calgary, Alberta

Registrars & Transfer Agents

Canada Permanent Trust Company,
Regina, Saskatchewan, and Toronto, Ontario

Morgan Guaranty Trust Company of New York,
New York, N.Y.

Stock Exchange Listings

Toronto Stock Exchange, Toronto, Ontario
American Stock Exchange, New York, N.Y.

Directors' Report to the Shareholders

FINANCIAL

Revenue from all sources in 1979 reached a record \$6,166,000. This was an increase of \$1,841,000 or 43% over 1978 revenue, resulting from substantial increases in oil and gas production and further increases in the prices received for these products. Cash flow of \$5,183,000 or \$2.64 a share was \$1,071,000 or 54¢ a share higher than in 1978 but net income, at \$2,247,000 or \$1.15 a share increased by only \$88,000 or 5¢ a share over 1978 net income. This was due to added production and overhead costs, the new oil well income tax on production from the Province of Saskatchewan and substantial increases in interest, depreciation and depletion expense attributable to new property acquisitions.

In the Company's 1978 annual report reference was made to the Saskatchewan Oil Well Income Tax Act and to the impact that the provisions of the new Act would have on the Company's royalty income from that province. Early in July 1979, in response to industry representations, the government of the province of Saskatchewan amended the regulations under the Act to reduce the rate of tax on royalty income from 60% to a maximum of 36% retroactive to September 1, 1978. This reduction has increased the Company's 1979 after-tax royalty income by approximately \$356,000 over what it would have been had the tax not been reduced. With respect to the period prior to September 1, 1978, the Saskatchewan government now has agreed to accept from the Company an assignment and quitclaim and a cash payment of \$40,702 in full settlement of the Company's liabilities for taxes imposed by the new Act for that period.

PRODUCTION

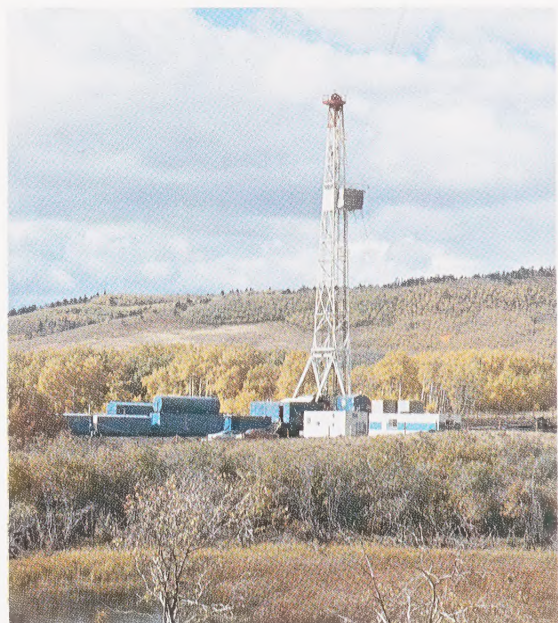
Average daily production for 1979 before deducting royalties was 800 barrels of oil and gas liquids and 9,366 Mcf of gas, compared to 591 barrels and 6,940 Mcf in 1978. This was an increase of 35% in each case. The increase in oil production came primarily from initial production at West Pembina while the gas production increase

was attributable in large measure to new property interests acquired early in 1979 in the Yoyo, Jeans-Fireweed and Inga areas of British Columbia and in the Verger and Netook areas of Alberta.

The price of Western Canadian crude oil increased \$1.00 a barrel on July 1, 1979 bringing the average price received by the Company to \$12.29 a barrel, an increase of 90¢ a barrel over the 1978 average price. The average price received for natural gas increased from \$1.52 an Mcf in 1978 to \$1.64 an Mcf in 1979.

RESERVES

Estimated reserves at December 31, 1979, before royalties, were 2.96 million barrels of crude oil and natural gas liquids and 70.3 billion cubic feet of natural gas compared to 2.4 million barrels of crude oil and natural gas liquids and 77.8 billion cubic feet of natural gas at December 31, 1978. These estimates have been calculated by engineers of the parent company, Norcen Energy Resources Limited and do not include the Company's share of reserves of natural gas in the Arctic Islands.



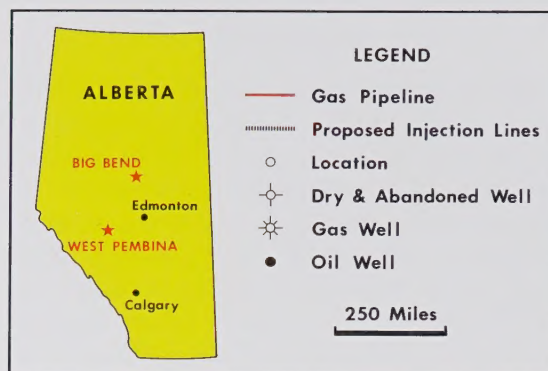
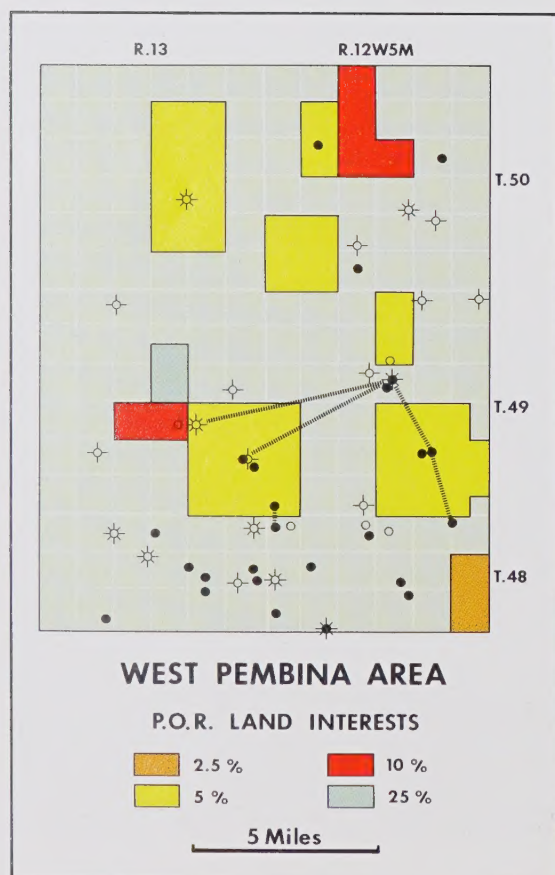
Drilling operations - West Central Alberta.

EXPLORATION AND DEVELOPMENT

Drilling

During the year the Company participated in the drilling of 50 (9.08 net) wells resulting in 7 (.52 net) oil wells and 34 (6.37 net) gas wells. This activity is summarized in the following chart.

Wells Drilled	1979		1978	
	Gross	Net	Gross	Net
Exploratory				
Oil	6	.47	4	.48
Gas	16	2.34	6	1.53
Dry	9	2.19	21	4.91
	<u>31</u>	<u>5.00</u>	<u>31</u>	<u>6.92</u>
Development				
Oil	1	.05	—	—
Gas	18	4.03	6	.54
Dry	—	—	—	—
	<u>19</u>	<u>4.08</u>	<u>6</u>	<u>.54</u>
	<u>50</u>	<u>9.08</u>	<u>37</u>	<u>7.46</u>



Hoadley

The Company has a 7 ½ % interest in three exploratory wells drilled in this area. Two of the wells have been completed as gas wells in the Glauconitic sandstone with absolute open flow rates of 1,750 Mcf a day. The third well, also completed in the Glauconitic sandstone, is an oil well with a producing capacity of approximately 50 barrels a day. The Company has interests ranging from 7 ½ % to 15 % in substantial landholdings in this area and further drilling will be undertaken during the 1980 season.

West Pembina

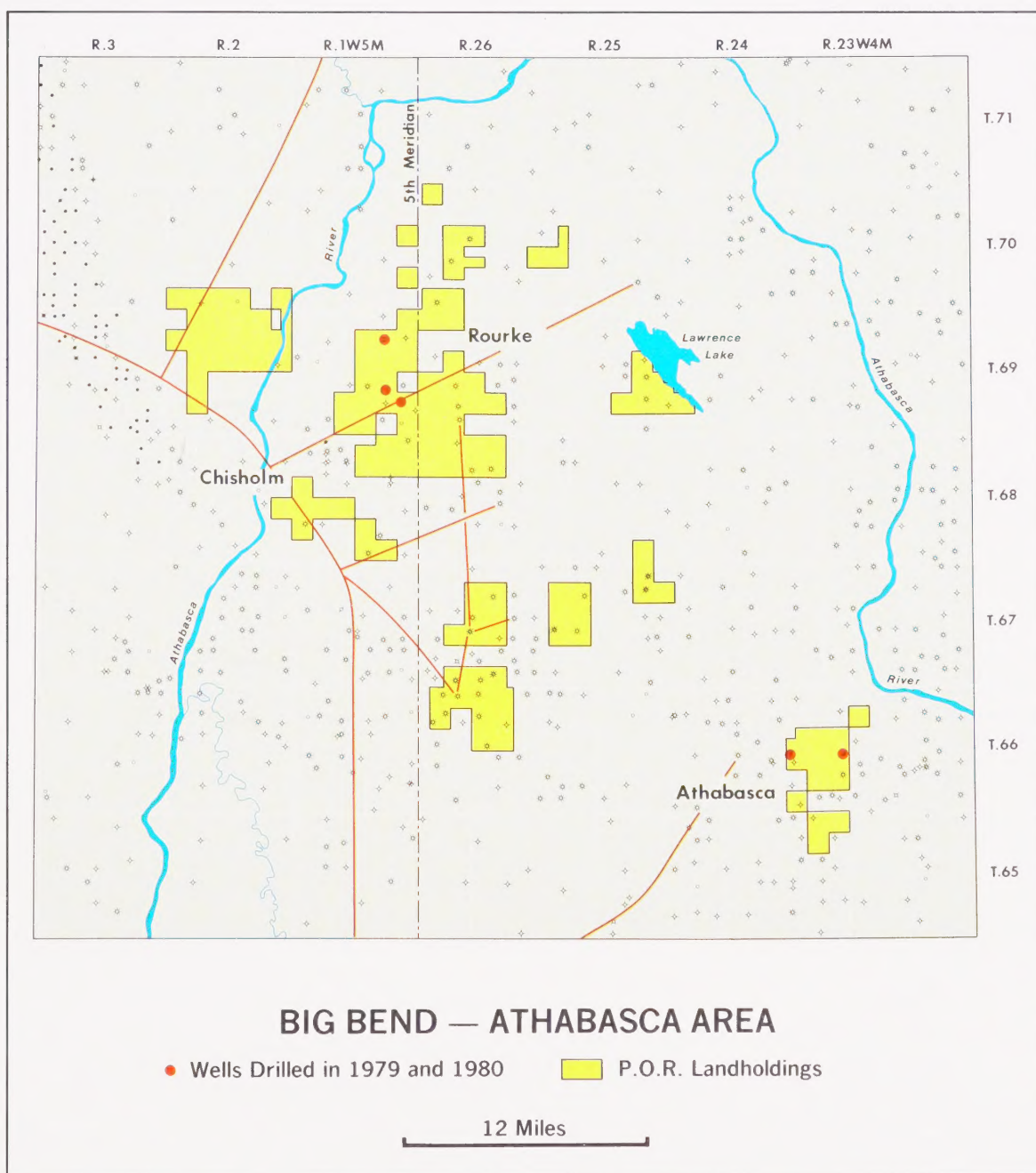
Exploratory drilling continued in this area in 1979 and in addition 2 development oil wells have been drilled and completed. The Company now has a 5 % interest in 6 Nisku reef oil wells and 1 gas condensate well and present plans call for the drilling of another 2 wells on the Company's lands. Average daily production in 1980 is expected to increase to approximately 250 barrels a day from the 1979 level of 125 barrels a day. In the current year the Company will participate in the installation of enhanced recovery systems for three pools in the field and in a gas recycling scheme to facilitate the production of natural gas liquids from the gas-condensate well. These facilities are expected to more than triple the Company's oil and gas liquids production values from the area by 1983.

Big Bend - Athabasca

The Company has participated in the drilling of 5 recently completed cretaceous gas wells in this area located 100 miles north of the City of Edmonton. These wells and the Company's extensive landholdings in the area are shown on the accompanying map. The Company's interests are 37 ½ % in the 2 wells located in the Athabasca section of the area and 12 ½ % in the 3 wells located in the Rourke section. An active seismic and drilling program will continue in this area in 1980.

Glenevis

This area is some 45 miles west of the city of Edmonton and is the location of a 100% owned gas well drilled by the Company during the summer of 1979. The well, POR Cherhill 6-16-56-5-W5, was completed in the Mississippian formation and flowed natural gas at the rate of 5,600 Mcf a day on production tests. A seismic survey has been completed in the general area of the well and the drilling of a further well is scheduled for 1980.



OIL AND GAS LANDHOLDINGS

At December 31, 1979 the Company owned interests in 4,009,561 gross (344,300 net) acres compared to 4,024,801 gross

(353,799 net) acres at the end of 1978. These landholdings are shown in detail in the following summary.

	Leases		Reservation & Permits		Total	
	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
British Columbia	142,507	9,751	—	—	142,507	9,751
Alberta	1,043,585	160,095	155,360	18,567	1,198,945	178,662
Saskatchewan	82,723	33,797	—	—	82,723	33,797
Manitoba	72,642	20,929	—	—	72,642	20,929
Ontario	4,348	816	—	—	4,348	816
Arctic Islands	102,630	3,232	2,013,305	81,900	2,115,935	85,132
Banks Island	—	—	183,656	5,785	183,656	5,785
Yukon Territories	37,697	785	—	—	37,697	785
Northwest Territories	171,108	8,643	—	—	171,108	8,643
	<u>1,657,240</u>	<u>238,048</u>	<u>2,352,321</u>	<u>106,252</u>	<u>4,009,561</u>	<u>344,300</u>

In addition to the above, royalty interests are held in 209,199 acres.

Calgary, Alberta
March 28, 1980

On Behalf of the Board



D.D. Barkwell
President

BALANCE SHEET

as at December 31, 1979 and 1978

Assets

	1979	1978
CURRENT ASSETS		
Cash and short-term deposits	\$ —	\$ 4,785,258
Accounts receivable	1,751,277	961,463
Income taxes recoverable	466,000	710,996
Drilling and other deposits	58,334	69,711
	<u>2,275,611</u>	<u>6,527,428</u>
PROPERTIES, PLANT AND EQUIPMENT (note 2)	28,075,025	16,415,989
	<u>\$30,350,636</u>	<u>\$22,943,417</u>

Liabilities

CURRENT LIABILITIES		
Bank indebtedness	\$ 464,229	\$ —
Bank loan, unsecured	3,420,000	—
Accounts payable	676,312	744,421
Due to parent company	189,574	113,946
Deferred revenue	246,014	197,885
	<u>4,996,129</u>	<u>1,056,252</u>
DEFERRED INCOME TAXES	5,614,667	4,394,337

Shareholders' Equity

CAPITAL STOCK		
Issued		
1,961,520 Shares	1,961,520	1,961,520
CONTRIBUTED SURPLUS	574,330	574,330
RETAINED EARNINGS	17,203,990	14,956,978
	<u>19,739,840</u>	<u>17,492,828</u>
	<u>\$30,350,636</u>	<u>\$22,943,417</u>

Approved by the Board

D. D. Barkwell, Director

W. A. Loucks, Director

STATEMENT OF INCOME

years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
REVENUE		
Oil and gas sales	\$4,695,151	\$2,719,342
Royalties	1,321,985	930,247
Interest	148,763	674,985
	<u>6,165,899</u>	<u>4,324,574</u>
EXPENSES		
Production	592,241	420,663
Depletion	1,453,140	556,087
Depreciation	262,142	170,566
General and administrative	450,718	216,091
Interest	394,788	—
	<u>3,153,029</u>	<u>1,363,407</u>
Income before income taxes	<u>3,012,870</u>	<u>2,961,167</u>
Income taxes		
Current (recovery)	(454,473)	(424,201)
Deferred	1,220,331	1,226,537
	<u>765,858</u>	<u>802,336</u>
NET INCOME	<u>\$2,247,012</u>	<u>\$2,158,831</u>
EARNINGS PER SHARE	<u>\$1.15</u>	<u>\$1.10</u>

STATEMENT OF RETAINED EARNINGS

years ended December 31, 1979 and 1978

	<u>1979</u>	<u>1978</u>
BALANCE AT BEGINNING OF YEAR	\$14,956,978	\$12,798,147
Net income	<u>2,247,012</u>	<u>2,158,831</u>
BALANCE AT END OF YEAR	<u>\$17,203,990</u>	<u>\$14,956,978</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

years ended December 31, 1979 and 1978

	1979	1978
SOURCE OF FUNDS		
Operations	\$ 5,182,624	\$ 4,112,021
APPLICATION OF FUNDS		
Properties, plant and equipment	13,374,318	7,063,354
DECREASE IN FUNDS	(8,191,694)	(2,951,333)
FUNDS AT BEGINNING OF YEAR	5,471,176	8,422,509
FUNDS (DEFICIENCY) AT END OF YEAR	<u>\$(2,720,518)</u>	<u>\$ 5,471,176</u>
SUMMARY OF FUNDS		
Current assets	\$ 2,275,611	\$ 6,527,428
Current liabilities	4,996,129	1,056,252
FUNDS (DEFICIENCY) AT END OF YEAR	<u>\$(2,720,518)</u>	<u>\$ 5,471,176</u>

Auditors' Report

TO THE SHAREHOLDERS OF
PRAIRIE OIL ROYALTIES COMPANY, LTD.

We have examined the balance sheet of Prairie Oil Royalties Company, Ltd. as at December 31, 1979 and 1978 and the statements of income, retained earnings and changes in financial position for the years then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

In accordance with the requirements of the Saskatchewan Companies Act we report that, in our opinion all the transactions of the company that have come to our notice have been within the objects and powers of the company.

Calgary, Canada
February 4, 1980

THORNE RIDDELL & CO.
Chartered Accountants

Notes to Financial Statements

years ended December 31, 1979 and 1978

NOTE 1 ACCOUNTING POLICIES

(a) Oil and Gas Properties

The Company follows the "full-cost method" of accounting whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized, and depleted on the composite unit-of-production method, based on total estimated recoverable reserves.

Substantially all of the Company's exploration and development activities related to oil and gas, are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

(b) Depreciation

Depreciation of plant and equipment is provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

(c) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the income reported in its accounts. Under this method the Company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming exploration and development costs and capital cost allowances in excess of the related depletion and depreciation provisions reflected in its accounts.

NOTE 2 PROPERTIES, PLANT AND EQUIPMENT

	1979			1978
	Cost	Accumulated Depletion and Depreciation	Net	Net
Oil and gas properties	\$29,982,042	\$4,986,983	\$24,995,059	\$13,841,197
Oil and gas production equipment	4,134,805	1,054,839	3,079,966	2,574,792
	<u>\$34,116,847</u>	<u>\$6,041,822</u>	<u>\$28,075,025</u>	<u>\$16,415,989</u>

NOTE 3 DIRECTORS' FEES

General and administrative expenses include directors' fees of \$10,000 (1978 - \$7,300).

PRAIRIE OIL ROYALTIES COMPANY, LTD.

COMPARATIVE SUMMARY

FOR THE YEARS ENDED December 31

Revenue (\$000)		1979		1978		1977		1976		1975	
Oil sales		\$ 1,079		\$ 529		\$ 378		\$ 312		\$ 253	
Gas sales		3,616		2,191		1,370		1,050		852	
Royalties		1,322		930		983		688		477	
Interest & Other		149		675		710		446		152	
		6,166		4,325		3,441		2,496		1,734	
Expenses (\$000)											
Production		\$ 592		\$ 421		\$ 321		\$ 201		\$ 163	
General and administrative		451		216		188		135		108	
Depletion		1,453		556		364		294		316	
Depreciation		262		171		75		39		23	
Interest		395		—		—		—		—	
		3,153		1,364		948		669		610	
Income before Income Taxes (\$000)		\$ 3,013		\$2,961		\$2,493		\$1,827		\$1,124	
Income Taxes (\$000)											
Current		(454)		(424)		232		147		(6)	
Deferred		1,220		1,226		509		434		325	
		766		802		741		581		319	
Income before extraordinary item (\$000)		2,247		2,159		1,752		1,246		805	
Extraordinary item		—		—		—		4,294		—	
Net Income (\$000)		\$ 2,247		\$2,159		\$1,752		\$5,540		\$ 805	
Earnings Per Share											
Before extraordinary item		\$1.15		\$1.10		89¢		63¢		41¢	
After extraordinary item		\$1.15		\$1.10		89¢		\$2.82		41¢	
Cash Flow before extraordinary item											
(\$000)		\$ 5,183		\$4,112		\$2,700		\$2,013		\$1,469	
Per Share		\$ 2.64		\$ 2.10		\$ 1.38		\$ 1.03		75¢	
Expenditures (\$000)											
Exploration and property acquisitions		\$12,607		\$6,047		\$2,099		\$1,282		\$ 897	
Plant and equipment (net after sales)		\$ 767		\$1,016		\$1,061		\$ 477		\$ 136	
Shares issued and outstanding		1,961,520		1,961,520		1,961,520		1,961,520		1,961,520	
Market Price Ranges of Shares (U.S.\$)		High	Low	High	Low	High	Low	High	Low	High	Low
American Stock Exchange	1st Quarter	17 ⁷ / ₈	13 ³ / ₈	19 ¹ / ₈	13 ³ / ₈	11 ¹ / ₂	8 ⁷ / ₈	6	3 ¹ / ₂	4 ³ / ₄	2 ³ / ₈
	2nd Quarter	22	15 ¹ / ₈	16 ¹ / ₈	12 ¹ / ₂	10 ³ / ₈	8 ¹ / ₄	8 ¹ / ₄	4 ³ / ₄	5 ¹ / ₂	3 ¹ / ₈
	3rd Quarter	21 ³ / ₈	16 ³ / ₈	17 ³ / ₈	12 ³ / ₄	14 ⁷ / ₈	8	7 ³ / ₄	6 ¹ / ₈	4 ⁷ / ₈	3 ¹ / ₄
	4th Quarter	26 ¹ / ₄	18	17	10 ⁷ / ₈	20 ³ / ₈	13 ¹ / ₂	11 ¹ / ₈	6 ³ / ₈	4	3

